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C O N F I D E N T I A L SECTION 01 OF 03 BERLIN 001577

SIPDIS

E.O. 12958: DECL: 12/15/2019
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SUBJECT: NOW FOR THE HARD PART: MERKEL,S TEAM EXAMINES NEXT
STEPS IN IRAN

Classified By: Ambassador Philip D. Murphy for reasons 1.4 b/d.

¶1. (C) SUMMARY. Chancellor Merkel set the German agenda on Iran with her early November statement before the U.S. Congress on "zero tolerance" for a nuclear armed Iran and the need for tougher sanctions should engagement not work. During a private roundtable hosted by Ambassador Murphy, however, members of Germany's Iran "brain-trust" from the German Parliament, MFA, Ministry of Economics and top government funded think tank welcomed the President's engagement policy, recommended broadening the dialogue to areas of cooperation (drugs, Afghanistan, diplomatic relations), betrayed little beyond a superficial knowledge of the nuclear program, argued that Germany took the largest economic hit from recent sanctions, and expressed doubts as to the efficacy of sanctions, giving us a window into the difficult task Chancellor Merkel will have in keeping her government on her page. In the end, we assess that Merkel will have her way. END SUMMARY.

¶2. (C) The November 24 event at the Embassy included members of Parliament from the four main German political parties: FDP Elke Hoff, CDU Andreas Schockenhoff, Greens Kerstin Mueller, and SPD Rolf Muetzenich. From the MFA, Policy Planner Markus Ederer, DG for Economics Ruediger von Fritsch, DG for Disarmament and Nonproliferation Amb. Peter Gottwald, and Iran Task Force Director Andreas Krueger attended. Ministry of Economics DG for External Economic Policy Karl-Ernst Brauner and the Director of the German government funded research institute Stiftung fuer Wissenschaft und Politik (SWP, or Institute for Science and Politics) Volker Perthes also attended.

MFA: TRR Not Dead Yet; But Not Well Either

¶3. (C) The Ambassador opened the discussion by thanking the German government for its excellent cooperation on Iran and asked his guests to share their thoughts on the Iranian internal situation, especially given recent reports of the expanded role of the IRGC in the cultural/educational spheres of life, and how that might affect Iran's external policy. MFA DG for Disarmament Gottwald stated that if we were correct in assessing the Iranian regime's primary goal to be survival, then we still had a chance with a negotiated solution. He said that while the Tehran Research Reactor (TRR) deal was not "well," Germany wasn't ready to pronounce it "dead" quite yet. He concluded with a strong statement saying that a nuclear armed Iran would be a nightmare in and of itself and a disastrous blow to the NPT regime which was why Germany would be a strong partner in support of further sanctions.

¶4. (C) MFA Policy Planer Ederer said he thought Iran was confused about what it wants and that the West might be even

more confused about how to get what we want. He said we want Iranian behavior change, but we don't agree yet what will get us there. He said UN sponsored sanctions would isolate Iran and limit its capacity, but questioned whether they would change Tehran's behavior. He said he realized sanctions remained a good alternative to military action, but questioned whether they were really capable of anything other than just buying time.

More Carrots before we Reach for the Sticks

¶15. (C) SWP's Perthes argued Iranian Supreme Leader Khamenei's primary interest was to maintain the security of the system and prevent regime change. Perthes said Khamenei feared a velvet revolution over all else, though regional instability was a close second. He noted Iran remained besieged by problems of drug smuggling, piracy, and instability in Pakistan. He recommended more emphasis be placed on trying to find an incentive for the regime to cooperate on the regional track, which had already shown some progress. He said the April 2009, 300 million dollar Iranian pledge at the Pakistan donor's conference was an important symbol of the value the regime placed on regional security. He suggested the West "broaden" relations with Iran to areas where cooperation could be had: drugs, Afghanistan, and diplomatic (especially Consular) ties. POL M/C noted this was fine, but ignored the fact that time was not on our side. Rather, Iran was installing new centrifuges each week. If Iran wanted to build confidence or "broaden" relations, it could modulate that pace, but time was not a luxury we had. Gottwald agreed emphatically.

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¶16. (C) Changing course, Perthes said that if "sticks" had to be used, he suggested more focus on "export-control" and less on sanctions. He noted evidence suggested export control regimes had already worked in slowing down centrifuge progress. He concluded by saying that if sanctions must be used, we should avoid all use of the word "crippling" and instead focus on "targeted" sanctions in order not to turn the Iranian masses against us and right back into Ahmadinejad's hands. He also suggested that "unofficial" sanctions such as Russia's decision not to sell the S300s were more effective than most formal sanctions. If formal sanctions had to be pursued he said only global sanctions would be effective, and therefore advocated UNSC action. Perthes said he saw readiness in the German business community to accept financial loss if sanctions were truly global, but they don't want to see business opportunities being lost to China or India.

Green Party : Too Late to Prevent, Need To Contain

¶17. (C) From the opposition, Green Party Foreign Policy Spokesperson Kerstin Mueller said she was glad that the new U.S. administration no longer talked about a threat of a military option. But she also said she was skeptical that Iran can be prevented from obtaining a nuclear capability without a military option, and that it might even be too late for a military option to be effective. She said she didn't see compromise within the interests of the regime and thought the West should focus more attention on how to "control" a nuclear-armed Iran.

FDP: Rank and File Grudging Partner on Iran?

¶18. (C) FDP Spokeswoman on Defense Policy, Elke Hoff opened her remarks with a grudging acknowledgment of the coalition agreement in which her party agreed that if engagement with

Iran on the nuclear dossier failed, sanctions would be implemented. She added that she remained personally skeptical as to their efficacy. She said additional sanctions would serve the unintended consequence of rallying the masses around Ahmadinejad.

¶9. (C) Hoff said she often hears from constituents in the business community that German companies are getting pressured from their American counterparts not to do business in Iran, and yet they see plenty of U.S. products for sale in Iran. Econ M/C intervened and stressed that the U.S. was ready to prosecute any U.S. businesses in violation of U.S. sanctions and had already done so. Hoff also suggested offering German businesses financial compensation should new sanctions come into play. In response to a criticism from Hoff on whether the U.S. deadline created for engagement on Iran reflected Obama's domestic political agenda, the Ambassador emphasized the deep commitment of the administration to engagement.

Germany is the Largest Loser

¶10. (C) MFA DG for Economics Von Fritsch agreed with Perthes' suggestion to focus more on the carrots and not the sticks. He noted that no single country has (recently) sacrificed as much financially as Germany has, not just in existing trade, but also in long term future contracts. Econ M/C noted that U.S. business had also suffered enormous trade and investment losses after 1979. Von Fritsch said if sanctions were inevitable, German business preferred global and clear sanctions as opposed to vague wording that can be left open to differing interpretations. On correspondent banking relations, Von Fritsch said the German government was still examining the issue but that a complete severance of correspondent banking relations including with Iran's central bank would not be possible since it would amount to a total trade embargo.

¶11. (C) Ministry of Economics DG for External Policy Brauner referenced the inclusion in German law of the presumptive right to trade, and said that he was concerned that what the German Customs and BAFA (export control agency under the Ministry of Economics) were doing to encourage "Nullbescheid" (pre-certification that specific trade with Iran is not illicit) might actually be illegal, as German business had complained. He said one important consideration for Germany

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was that a further crackdown on trade with Iran could endanger repayment of the 4.5 billion Euros in outstanding credits that Iran owed Germany. Germany had agreed not to issue any new credit under its Hermes (OPIC-like) program, but expected to be able to collect on outstanding credits. Nonetheless, both Brauner and Von Fritsch emphasized that in the event of no progress in negotiations with Iran, Germany was ready to enter a new round of stronger sanctions, and that we should look to Chancellor Merkel's statements in the U.S. Congress and FM Westerwelle's reiterations of her strong policy as the final say on which direction Germany would go on Iran.

¶12. (C) CONCLUSION. The majority of the guests at the table distinctly deferred to Perthes for guidance on where the Iran issue might be headed or should be headed. This was striking amongst such a high ranking group of people operationally involved with the Iran issue. Also illuminating was the variety of talking points employed by the participants to define hurdles for sanction until debunked one at a time by Embassy officers. The candor with which even some MFA and Ministry of Economics officials expressed their skepticism on the efficacy of pursuing tougher sanctions on Iran may mean that Merkel will have to press hard within her own government to deliver on her promise of implementing tougher sanctions should engagement with Iran fail. None of our interlocutors,

however, questioned whether Merkel would, at the end of the day, be able to "deliver" on her promises. If and when we decide to go forward on the pressure track on Iran, the USG may wish to reinforce Merkel's position by showing appreciation for Germany's strong continuing support. END CONCLUSION.
MURPHY